



May 13, 2003

**SUBJECT: ANNUAL REVIEW OF FEES AND CHARGES FOR FISCAL
YEAR 2003/2004****REPORT IN BRIEF**

The current fees and charges of the City have been reviewed in accordance with the Fiscal Sub-element of the General Plan. Due to the budget crisis, this year's review was further refined to ensure all fees were fully recovering costs. This comprehensive review of fees and charges identified several areas where associated fees and charges were not sufficient to cover the costs of services provided. Staff has made adjustments to the proposed fee schedule as necessary to ensure that all fees and charges are aligned with the cost of service. The results of staff's analysis indicate a growing disparity between fee revenue collection and cost of service. The single largest factor associated with the disparate nature of fee revenue to cost of service was higher than predicted salary and benefit costs.

Fees that were not labor based have been inflated by a standard percentage of 3% except for those fees that are legally limited. Fees that are labor based are proposed to increase by approximately 9%. This increase is in direct correlation with the average salary and benefit adjustments approved by Council through the adoption of the FY 2002/2003 Salary Resolution. Staff has also factored in administrative overhead costs to certain fees that were previously not included in the fee structure.

In addition to performing the above analysis staff also undertook an extensive comparative study of neighboring cities to ensure Sunnyvale remains competitively positioned as a low cost provider of high quality goods and services. The results of this analysis confirm that our proposed fees will remain about average to slightly below average in most cases.

As part of the City Manager's strategic Six-Point Plan to address the budget crisis, staff reviewed city services for potential cost recovery. As a result of this review, staff has proposed new fees for services that were previously not recovered and therefore subsidized by the City. All new fees and fees that have been earmarked for substantial increases are discussed in further detail below.

BACKGROUND

Annually, the Finance Department submits the proposed fees and charges for the upcoming fiscal year to the City Council along with the recommended budget. A public hearing is held on fees and other budget-related items, followed by formal action adopting the new fee levels. Most new rates become effective at the start of the new fiscal year on July 1, 2003. Development fees become effective 60 days after adoption.

EXISTING POLICY

The Fiscal Sub-Element of the General Plan states that user charges and fees should be established at levels closely related to the cost of providing those services (7.1A.1i) and user fees be adjusted annually so as to avoid major changes in them (7.1A.1j). The annual review and adjustments of fees and charges is in accordance with these action statements.

DISCUSSION

The recommended FY 2003/2004 Budget and Resource Allocation Plan includes a budgetary inflation factor of 3% for FY 2003/2004. This past fiscal year the City approved an average salary increase of 9.17% for all employees represented by the Sunnyvale Employees Association and an average increase of 8% for all employees represented by the Public Safety Officers Association with the adoption of the FY 2002/2003 Salary Resolution.

Over the past few years salary increases have outpaced the City's standard inflation factor of 3%. Therefore, the City's labor-based fees and charges no longer adequately act as cost recovery mechanisms. Because all user fees and charges are established at a level related to the cost of providing those services, any labor based fees are proposed to increase by approximately 9% while all others are proposed to increase by 3% or less for FY 2003/2004. For ease of administration, most fees have been rounded to the nearest logical unit.

Newly Proposed Fees

The following new fees have been proposed by each respective department in order to sufficiently recover costs associated with current services. This section will break down in detail newly proposed fees by Department and list their net effect.

Community Development**Preliminary Planning Review Fee**

The Preliminary Review is a tool to receive early feedback on projects that typically require Major Permits and Planning Commission or City Council review. This type of review currently does not have a fee associated with it. Staff proposes a nominal fee of \$250. Staff estimates that they conduct 15 of

these reviews each year, therefore yielding additional revenue in the amount of \$3,750.

Mills Act Contract Request

Enacted by the State of California in 1976, the Mills Act is state-sponsored legislation that grants local governments the ability to directly participate in an historic preservation and economic incentive program. The Mills Act is designed to provide owners of both owner-occupied and income-producing property the opportunity to actively participate in the rehabilitation, restoration, preservation and maintenance of "qualified historical properties" while receiving property tax relief.

Staff has determined that these types of request are extremely infrequent, but require a considerable amount of time to research and review. Staff proposes a modest fee of \$200 in order to recover some of the costs associated with this service. Staff estimates that this will generate on average \$100 in revenue annually. Currently, both the City of San Jose and the City of Santa Clara charge \$575 and \$200 respectively for this service.

General Plan Maintenance Fee

During their 2002 session, the State Legislature enacted AB 2936 (Aroner), which clarifies that local governments have the authority to use permit processing fees to cover the necessary costs to prepare and revise General Plans. The proposed General Plan Maintenance Fee would be assessed as 0.05% of the total value of construction work for which a permit is required pursuant to Chapter 16.12 of the Sunnyvale Municipal Code. Based on the FY 2002/2003 valuation, staff estimates the proposed fee would generate approximately \$75,000/year.

Copies of Printed Material

Staff is proposing 2 new fees in this area of service. The first fee is for color reproduction General Land Use and Transportation Maps. This new fee is proposed to cover costs associated with a newly available formatted size map of 36" x 60". The proposed fee for this new map size is \$50 and will have a minimal fiscal impact.

The second fee proposed is to cover costs associated with the delivery of various City planning maps on Compact Disc media. Staff is proposing a fee of \$15/per map. These charges will cover material costs and staff time required to prepare the media for distribution. Staff would like to note that these maps are now available via the Internet for public download. Therefore, staff projects minimal gain in revenue from this fee.

Department of Finance

Business License Processing Fee

As the costs to process licenses and administer the Business License Tax have increased the tax itself was never raised. Therefore, a large percent of the Business License Tax revenue is consumed by the cost of processing. Enacting a processing fee will allow the City to recoup the cost of administration and keep the revenue from the actual Business License Tax intact.

Staff had originally proposed a \$25 processing fee for new applications and a \$10 fee for processing renewals. At Council's direction, staff has revised this proposal to \$27 for new applications and \$17 for renewals. The fee for new applications is expected to generate \$36,990 in revenue and the fee for renewals is estimated to generate \$120,700 for a total of \$157,690.

Credit Card Processing Fee for Utility Payments

The City currently accepts credit card payments over the phone from delinquent utility customers. The cost of providing this service, i.e the bank charges and administrative costs associated with processing a credit card payment, are not currently recovered from customers who use this service.

The agreement that the City has with its financial institution allows the City to charge a Convenience Fee for the use of credit cards on payments that are conveyed through the Internet, phone, or facsimile transmission. Staff has performed an analysis of the costs related to handling these payments and has proposed a new fee.

The Credit Card Convenience Fee would cover the costs of processing credit cards over the phone, the only indirect payment method the City currently offers to its customers. In order to fully recover the cost, the fee must be percentage-based so that it accurately reflects the charges received from the bank. Staff is proposing a 3% fee for Utility payments only.

Currently, because the Utilities Division only accepts credit cards over the phone for delinquent customers, just a small amount of additional revenue will be generated by the adoption of this fee, but all costs will be recovered. The real benefit is that, upon adoption, this service will now be opened to all utility customers any time they call in and wish to make an immediate payment.

Department of Libraries

DVD/Video Rental Fee

Over the past year, the Library expanded its popular collection of VHS feature movies to include DVDs, largely driven by customer demand and the increasing availability of material. Though standard practice recommends against

charging the public for information in one format over another, cost recovery of providing this popular service is more desirable than eliminating this service or some other service altogether. It is anticipated by the Library that enacting a rental fee may discourage some current users from accessing the service, but this will likely be offset by new users who will be attracted to the growing collection rich in quality material which reflect the diversity of the community and the best offerings in cinematic art.

Some new equipment and minor construction will be necessary in FY 2003/2004. The proposed fee would be assessed at \$1.50 for 3 days of take home access. Based on an estimated 273,000 rentals per year, the fee would generate about \$300,000 in net revenue after expenses and would recover approximately 94% of all associated costs. These costs include additional staff costs of \$100,000 per year needed to maintain the materials through a process where actual films are shelved in a secure area while empty boxes are shelved in the public area. The need for staff time will decrease if circulation is lower than anticipated, lowering the cost of service.

Department of Public Safety

Address Search/Research Fee

This fee is proposed to cover costs associated with Department of Public Safety Records Staff time when completing requests for address searches. Address searches are typically performed by property owners and/or potential homeowners in order to measure the number of Public Safety service calls to a given address. Staff has approximated that each address research requires 1 hour and has therefore set the rate for providing this service at \$43. Based upon an estimated 50 address search requests staff anticipates annual revenue of \$2,000.

False Fire Alarm Fee

A number of California cities have implemented a False Fire Alarm Fee to recover the considerable costs associated with responding to such occurrences. Currently Sunnyvale assesses a fee for false burglar alarms, but not for false fire alarms.

The City's Public Safety staff handles more than 1,200 false fire alarms every year. Responding to these alarms requires significant staff time and negatively influences the overall safety of the community by diverting public safety officers from actual emergencies. Although it is difficult to measure the full cost of responding to false fire alarms, e.g., any overtime generated, dispatching costs, level of staff response, wear and tear on the apparatus and equipment, etc., a False Fire Alarm Fee can recover some of the costs, and more importantly, discourage unchecked false fire alarms.

Several cities in the Bay Area were surveyed to determine who charges a fee for false fire alarms. While Palo Alto, Cupertino, San Jose, Mountain View, and Fremont do not currently assess the fee, the cities of Santa Clara, San Mateo, and Redwood City do. Those cities surveyed who currently charge the fee are listed in the table below, along with the proposed new Sunnyvale fee.

City	# of Free False Fire Alarms	Fees
Santa Clara	2 free; penalty for 3 rd in 30-day period	3 rd and subsequent \$150 per occurrence
San Mateo	None	\$240 each occurrence
Redwood City	2 free; penalty after 3 rd in 12-month period	3 rd and subsequent \$375 per occurrence
Sunnyvale– Proposed	2 free; penalty after 3 rd in 12-month period	\$150 for 3 rd and each additional

Since the fee is only charged on the third and subsequent alarm in a one-year period, it is difficult to estimate annual revenue. However, assuming that 50% of the calls are subject to the fee, new annual revenue would be at least \$100,000.

Department of Public Works

Radio Read Meters

Fees for Radio Read meters are designed to cover the cost associated with the purchase of these meters. The proposed fees associated with these meters range from \$348.05 - \$700.75 depending on the size of the meter. This technology will allow for more accurate, efficient, and safer reading of meters. A small increase in revenue through interest earnings may be realized through increased reading accuracy and therefore quicker revenue realization. The financial benefit associated with the installation of these meters will be directly reflected in the future rates charged to customers.

Permit Fee Associated With Public Works' Pretreatment Program

The Water Pollution Control Plant's Pretreatment Program operates through an application process, issuance of an annual permit, annual inspection, and quarterly sampling permits for Significant Industrial Users. Commercial businesses, such as restaurants, fall under the Water Pollution Control Plant's NPDES permit and are inspected every two years. Currently, all costs associated with inspections, sampling and permitting by the Industrial Waste Program are recovered through the monthly sewer bill for all discharges. Over

the past decade, the administrative and clerical work has increased for issuing permits for these facilities and the cost has not been recovered through the annual rate resolutions for permitted and commercial facilities. By assessing a permit fee to all Significant Industrial Users and Food Service Establishments, the Pretreatment Program can recover administrative and clerical costs associated with work hours and resources.

Currently, Pretreatment Program and Support Service staff members spend 18 hours per Significant Industrial User and 9 hours for Food Service Establishment for correspondence, file review, application review, permit drafting and processing. The Pretreatment Program proposes to recover costs of \$575 per Significant Industrial Users permit and \$265 per Food Service Establishment. This permit fee would apply to all Significant Industrial Users.

Staff has determined that there are 60 facilities currently operating in the City that would qualify as Significant Industrial Users and 242 Food Service Establishments. The associated revenue that would be generated from these permit fees would total \$34,500 and \$64,130 respectively for a grand total of \$98,630 in new revenue on an annual basis. This revenue would be received in the City's Wastewater Management Fund.

Return Trip Fee for Turning on Water Service for New or Delinquent Accounts

Staff is proposing two new fees in order to recover costs incurred when activating service on new and/or delinquent water accounts. The Return Trip Fee is to recover a portion of the cost associated with staff having to make multiple trips to a location to establish water service. On the third trip to the site the customer will be charged again at the same rate as regular same day service, or the rate for after hours service, dependent on when the customer calls. It is anticipated that this will generate only a small amount of revenue, but will help to recover the cost associated with the extra trips needed to establish service.

Non-Standard Fee and Charge Increases

The following fees were adjusted in order to more closely recover costs associated with the delivery of service. In previous years staff has proposed increases in fees to correlate with the standard rate of inflation, roughly 3%. In recent years increases in base pay and benefits have exceeded 3%. While fees were continually increased at the standard rate of 3%, no additional increase was proposed to cover the gap presented by recent salary increases. This presents an inherent structural gap, where the City's General Fund ends up subsidizing the cost of service.

Where applicable labor-based fees are proposed to be increased by roughly 9% to help close the structural gap mentioned above. In certain cases an additional administrative charge has been added to cover associated costs of

providing a given service. For instance, when our Public Safety Officers are contracted for any Overtime services there are supplemental costs associated with this service outside of base pay. Costs associated with materials, capital goods, and infrastructure must also be taken into account. This section will break down in detail any proposed increases above and beyond the standard 3% and 9% rates necessary to adequately recover the cost of services by City departments.

City-Wide Fees

Copies of Printed Material (Copy of Cassette Tape Recordings)

This fee is administered by the Department of Public Safety and is charged for requests for tape recordings of telephone and/or radio communications. The proposed increase is based on the current budgeted rate for a Public Safety Dispatcher, plus an administrative charge. This modification will increase the cost recovery of providing this service.

Department of Community Development

Planning Permit Fees

Staff is recommending a substantial increase in planning fees. A portion of the increment is due to increased costs to process applications (staff salaries, new noticing) and a part of the increase is to more accurately reflect the level of effort required to process the applications. Recommended fees have been compared with 6 other Santa Clara County cities; the recommended increases are typically below the average amount charged in other communities.

Grading Permit Fees

Staff is recommending a structural change in how grading permit fee levels are determined and assessed. The current method involves significant staff time in calculating measurements and determining the appropriate fee to assess each individual project. The Department of Community Development is proposing a flat percentage of 2% of the building permit fee be assessed for each grading permit. The benefits of this method will be reduced staff time to calculate fees and greater accuracy of fees charged. The rate is based on the ten-year history of grading permit fees.

Department of Libraries

Fines and Fees

The Silicon Valley Library System (SVLS) members in prior years have agreed to seek permission from each jurisdiction to achieve consistency in fines and fees charged among all member libraries. In setting fees for FY 2003/2004, Library staff has maintained the agreement with the SVLS members, and has set fees consistent with other member libraries in the SVLS. Staff is proposing to increase the daily fines associated with overdue materials by \$0.05 to \$0.25 and standardizing the maximum fine to \$8.00.

Department of Parks and Recreation

General Activity and Recreation Fees

The Director of Parks and Recreation sets Activity and Facility Use Fee Schedules based on market conditions and City Council adopted policies. The Schedules will be published at least annually by the Department of Parks and Recreation, and will be made available to the public.

Golf Fees

To avoid having fee changes in the middle of the golfing season, golf fees go into effect on April 1. Since most other fees change with the start of the new fiscal year, the practical effect is that proposed golf fees for future years are presented for Council's consideration ten months in advance. The golf fees for April 1, 2003 through March 30, 2004 were approved by the Council in May 2002. Staff is now proposing to change one of these previously approved golf fees.

That is, the weekend fee at Sunken Gardens Golf Course was approved to increase from \$16.50 to \$18.00. The November 2002 Market Survey indicates that our weekend fee is already 5.36% above the market average. Other 9-hole courses in our market area have not increased fees as staff had previously anticipated. The approved fee increase, when matched with the lagging economy, could result in significant losses of rounds/revenues. Therefore, staff recommends that the increase planned for April 1, 2003 to the weekend fee be limited to \$17.50.

Fees for FY 2003/2004, effective April 1, 2004 will be similar in amount to increases seen in previous years. The weekday and weekend rates at Sunnyvale Golf Club will increase \$1 per round and the monthly play card fees will increase by \$5 per month of play. At Sunken Gardens Golf Club the weekday and weekend fees will increase by \$0.50, monthly play card fees will increase by \$5 per month of play.

Department of Public Safety

General Fees and Charges

Fees for copies of incident reports are proposed to remain at their FY 2002/2003 level. Fees associated with copies of videotapes and local criminal history letters are proposed to increase by the total cost required to provide the service. Fees and charges for most other Public Safety permits and services are recommended to either remain at their current level or be increased by approximately 9% to account for increases in the City's labor and benefits costs. Some fee increases are constrained by statute (such as the maximum limit of \$1,000 for emergency response fees.) In other cases, such as the fee for Subpoena Duces Tecum, charges are mandated by the State. In these cases

the fees are equal to the mandated amounts.

False Burglar Alarm Fee

Staff is recommending a structural change in how false burglar alarm fees are assessed. Previously, staff had implemented a progressive fee structure under which the penalty per each instance would increase up to a maximum fee of \$178. This structure has required extensive staff time in order to track and measure repeat offenders. Therefore, staff is proposing a flat fee of \$150 for the third and following instances of a false alarm.

Adult Entertainment and Massage Establishments

Fees for adult entertainment and massage establishment licenses are proposed to be increased to a level that sufficiently covers costs. Staff has estimated that each establishment license requires approximately 16 hours of Public Safety personnel time, with an average total cost of \$1,300 incurred to complete the necessary background checks and associated paper work. Staff is therefore proposing a fee of \$1,300 to recover these costs.

Animal Control Fees and Charges

All fees in conjunction with Animal Control Services will now be regulated by The Humane Society of Silicon Valley. Per prior Council action the City terminated its agreement with the Silicon Valley Animal Control Authority effective June 30, 2003.

Department of Public Works

General Fees and Charges

Staff is recommending that most Public Works fees and charges be increased by either 3% or 9%. Any fees which have a direct labor element associated with them are proposed to be increased by approximately 9% while any fees or charges that are based primarily on costs of material are proposed to be increased by 3%.

Water Service and Wastewater Discharge Fees

Exceptions to the above increases are a proposed increase in Water Service fees of 10.0% and Groundwater to Wastewater Discharge fee increases ranging from 3.0% to 10.05% to better reflect actual cost of service.

The utility rates for water, wastewater, and solid waste were considered by Council in a separate resolution on April 22, 2003, and thus are not included in the attached Fee Schedule. As approved by Council, monthly residential charges for water, wastewater, and solid waste collection services will increase by 10.0%, 7.0%, and 4.0% respectively.

FISCAL IMPACT

Recommended adjustments to the fees have been incorporated into the 20-Year Financial Plan's revenue projections. Exhibit A is the proposed Fee Schedule for FY 2003/2004 reflecting proposed increases or adjustments in fees and charges.

As part of the City Manager's strategic Six-Point Plan to address the budget crisis, staff has proposed new fees for services that were previously not recovered and therefore subsidized by the City. Staff has also restructured current fees in order to ensure appropriate cost recovery.

PUBLIC CONTACT

Notice of the June 3, 2003 public hearing on the fee increase will be published in the Sunnyvale Sun. In addition, copies of this report will be available for public inspection along with other budget materials. Copies of the City's recommended FY 2003/2004 Budget are available at the Library and in electronic form on the City's website. Notice will be sent to the Building Industry Association, which has previously requested notice pursuant to the Government Code. The Parks and Recreation Commission, the Library Board of Trustees, and the Planning Commission will review the proposed fees and charges within their respective areas prior to the public hearing.

RECOMMENDATION

The proposed changes in the City's Fee Schedule are presented for review purposes at this time. A public hearing on fees and other budget-related matters is scheduled for June 3, 2003. Formal action adopting the new fee levels by resolution is scheduled on June 17, 2003.

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EXHIBITS

A. FY 2003/2004 PROPOSED MASTER FEE SCHEDULE